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E.O. 12958: DECL: 2019/11/18

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SUBJECT: IT'S OFFICIAL: VENEZUELA'S ECONOMY IN RECESSION

REF: CARACAS 1104; CARACAS 87; CARACAS 1311; CARACAS 819

CLASSIFIED BY: DUDDY, AMBASSADOR, DOS, AMB; REASON: 1.4(B), (D)

**¶11.** (C) Summary: According to Central Bank statistics, Venezuela's economy contracted for the second straight quarter, which is the accepted definition of a recession. The contraction itself was no surprise, but its size - 4.5 percent in real terms - was greater than expected. While even the Minister of Economy and Finance is predicting an overall contraction of up to 2.2 percent for 2009, many analysts expect Venezuela will return to positive but anemic growth in 2010. Economic troubles have almost certainly contributed to a decline in President Chavez's popularity, but it is unclear if this decline will prove a sustained political challenge to Chavez. End summary.

#### What the Numbers Show

**¶12.** (U) The Central Bank of Venezuela (BCV) published third quarter results on November 17 showing a contraction of 4.5 percent compared with the same quarter in 2008. This decline was greater than expected: in a Bloomberg News survey, for example, the median estimate of 12 analysts was a 1.6 percent contraction. In line with recent trends, non-tradables such as communications, services, electricity and water, and construction generally performed more strongly than tradables such as manufacturing, which declined 9.2 percent relative to the third quarter of 2009. The petroleum sector showed a decline of 9.5 percent, which the BCV associated with OPEC-mandated production cuts. As the economy also contracted in the second quarter (ref A), Venezuela is technically in recession. (Note: A recession is generally defined as a contraction of two straight quarters, a definition accepted by Venezuelan government (GBRV) officials. End note.)

#### Admitting the Obvious

**¶13.** (U) The BCV pinned blame for the contraction on the consequences of the global financial crisis and weakened petroleum prices, claiming GBRV policies had ameliorated the local economic

impact of these problems. While in the past GBRV officials had stated they hoped there would not be an overall contraction in 2009, Minister of Economy and Finance Ali Rodriguez said in a November 17 interview that the economy could close out the year with up to a 2.2 percent overall contraction. (Note: Over the first three quarters of 2009 the economy has contracted 2.2 percent relative to the same period in 2008. End note.) Many analysts believe the third quarter of 2009 will turn out to be the economy's low point, with growth becoming less negative in the fourth quarter and then turning positive, if anemic, in 2010.

Comment

14. (C) Venezuela's economic model has deep underlying vulnerabilities which the GBRV to date has shown little if any inclination to address (refs B and C). It is possible increased government spending, which is widely expected in the run-up to parliamentary elections scheduled for September 2010, will help the economy rebound slightly in 2010, but we agree growth is likely to be anemic. Pollsters generally agree that the recent decline in President Chavez's popularity is partly due to increasing dissatisfaction with the economy and related problems such as electricity and water supply. As we have noted before, it is

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unclear the extent to which economic problems will pose a sustained political challenge to Chavez (ref D), given the current state of the opposition and Chavez's tactic of redirecting attention to other issues such as, currently, tensions with Colombia. End comment.

DUDDY